UNDP

UNITED NATIONS DEVELOPMENT PROGRAMME

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DP/PROJECTS/7388

ENGLISH

INDIANA UNIVERSITY
NS

APPROVAL OF UNDP/UNCDF ASSISTANCE TO A PROJECT OF MADAGASCAR

IPF:(1992-96) $66 500 000
(MAG/92/C01) - Guarantee Fund and Credit Line for Micro-enterprises

Date of approval by the AC:[1/]	11 November 1992
Expected duration:	Five years
Proposed executing agency:	UNDP/OPS
Government implementing agency:	Ministry of Planning and Economy
Proposed UNDP contribution:	$ 660 000 Source of funds: IPF
Proposed UNCDF contribution:	$4 804 000 Source of funds: General Resources

Project background

Micro enterprises in Madagascar provide a large source of employment and a vital link to larger enterprises. However, over the past years, and despite the implementation of several adjustment programmes supported by the IMF and World Bank and Government policy to transform the Malagasy economy to an open and market-oriented one, small enterprises have faced numerous obstacles to obtain short-term credit. Banks which have low liquidity and lack trained personnel to identify profitable small loans are heavily risk adverse, and prefer to lend to larger business over smaller ones. It is against this background that the Government and UNDP have set out to assist the private sector through the support of three interrelated master programmes approved under the Fifth Cycle: (1) The Master Programme for Macro-Economic Management ($5 million; (2) the Social Dimension of the Structural Adjustment Programme ($5 million); and (3) Programme to promote the Private Sector ($5 million).

Initially, UNDP and UNCDF explored the possibility in 1989 to establish a centralized credit facility which would provide direct lending and extension services to 20 existing UNDP Technical Assistance production-oriented projects for which an estimated credit demand of $4 million had been identified. At the time Madagascar was not an LDC and thus could not qualify for UNCDF assistance.

Instead of the original credit facility proposal, and due to the evolving attitude of Malagasy Banks towards the small business sector resulting from the positive results of the UNDP/ILO project (MAG/89/003) Entreprendre à Madagascar (whose role was to identify, train entrepreneurs and prepare, approve and track down bank loans) it was determined that the best way to assist this sector was by establishing a loan guarantee and credit fund

[1/] **This Fact Sheet reflects the status of the project/revision at the time it was approved by the Action Committee; modifications to the project/revision may have occurred subsequently.**

(MAG/89/002) in partnership between UNDP, the banking system and private entrepreneurs. The loan guarantee fund will thus allow and encourage the banks to assume part of the risks of extending credit to viable projects with good prospects of success of small entrepreneurs by covering 50 percent of the losses incurred when borrowers default on loans.

The Guarantee Fund project (MAG/89/002) financed through UNDP/IPF funds, was approved by the Action Committee on 30 January 1991 and the project document was signed in March 1991. However, the Division of Finance and Office of Legal Affairs recommended that UNDP seek clarification from the Governing Council on the policy issue of using IPF funds to finance loan guarantee and credit schemes.

An alternative source of financing was therefore searched; and UNCDF in agreement with the Government and UNDP, incorporated the financing needed to continue the activities of MAG/89/002 in its Planning and Project Identification Mission of October 1992. This was now possible since Madagascar was approved for full LDC status by the General Assembly (Resolution 46/206) in December 1991.

Description of project

The project aims at promoting the private sector in Madagascar by facilitating access of micro and small enterprises to commercial credit from local banks and to reinforce the institutional capacities of the country to manage small business credit, through the creation of a credit guaranty fund, amounting to $1.3 million and a direct credit facility, amounting to $3.0 million.

The guarantee funds are intended to cover risk-sharing with selected national commercial banks and venture capital companies, up to 50 percent of the loans that they extend to eligible small businesses, with a maximum of $30,000 per loan. The credit facility will extend short-term loans to small enterprises, up to $3,500 per loan. Loans under the guarantee facility will be subject to normal commercial credit terms, while the loans under the credit fund will be subject to softer terms.

Inputs

UNCDF will finance the establishment of the loan guarantee fund, the establishment of a direct credit line, monitoring and evaluation missions, audit sub-contracts, OPS agency overhead costs and UNCDF programme support budget costs.

UNDP will provide technical, administrative and logistical support under the ongoing OPS executed project (MAG/89/002) Credit Guaranty Funds and Assistance to small and Micro Enterprises as well as subcontract, training and mission costs.

Financial data

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	UNDP	UNCDF
Missions		30 000
Personnel	413 400	-
Subcontract	40 000	40 000
Training	60 000	-
Loan Guarantee Fund and Credit Line	-	4 300 000
Agency and Support Costs	146 600	434 000
Total	660 000	4 804 000